

REVENUES

Revenue legislation for the 2002 session was enacted in the context of a significant reduction in General Fund-State revenues. The February 2002 revenue forecast of about \$21 billion was over one billion less than the \$22 billion used in constructing the original 2001-03 biennial operating budget. Most of this General Fund-State revenue reduction was a result of a downturn in the economy, including the effects of the terrorist attacks of September 11, 2001.

During the 2002 session, the Legislature enacted and the Governor signed measures that totaled to a net General Fund-State increase of \$88 million for the 2001-03 biennium. Major revenue issues for 2002 included: the passage of two initiatives to the people (Initiative 747 and Initiative 773); a temporary revision to Initiative 601 voting requirements; revenue increase measures; legislation responding to the Governor's task force on investment income of non-financial firms; transportation revenue legislation; and the federal government's changes to the estate tax.

Initiatives

In November 2001, voters approved Initiative 747 (Chapter 1, Laws of 2002), limiting the growth of property taxes. Regular state and local property tax levies are limited to 1 percent growth per year. For local districts with a population greater than 10,000, and for the state, this rate is limited to inflation if inflation is less than 1 percent. Higher growth rates are allowed for local levies only with voter approval. The limits do not apply to voter-approved special levies or to new construction and are based on the regular levy receipts of taxing districts, not the amount paid by individual property owners. This measure is projected to result in reduced General Fund-State revenues of \$34 million between January 1, 2002, and June 30, 2003, and a reduction in local revenues of \$115 million for all local regular levies for the same period. For the 2003-05 biennium, this reduction is expected to rise to \$118 million for the state levy and \$363 million for all local regular levies.

Voters also approved Initiative 773 (Chapter 2, Laws of 2002), in November 2001 increasing the rates of the state cigarette and tobacco products taxes. Effective January 1, 2002, cigarette tax rates increased from \$0.825 to \$1.425 per pack, the second highest rate nationally as of April 2002. The tobacco products tax rate increased from 74.9 percent of the wholesale price to 129.4 percent, one of the highest rates nationally. Receipts from the taxes are dedicated to the Health Services Account to be used for health programs for low-income people, tobacco control and prevention, and the state Basic Health Plan. Increases to the Health Services Account are projected at \$220 million for 2001-03 and \$270 million for 2003-05. The Initiative provided for amounts to be transferred to other funds that lose revenue as a result of the change in law but did not contain such a provision for the state general fund. For the 2001-03 biennium, this legislation results in a \$7 million reduction for the General Fund-State, increasing to a \$9 million reduction for the 2003-05 biennium.

Revenue Increase Measures

Budget driven revenue includes additional staff for the Department of Revenue to conduct audits, tax discovery, collections, and taxpayer education. These strategies are projected to increase General Fund-State revenues by \$46 million for fiscal year 2003 and \$106 million for the 2003-05 biennium. Projected local government revenue increases are \$7 million for fiscal year 2003 and over \$15 million for the 2003-05 biennium. (For more information, see the Governmental Operations Section of this document.)

Under Chapter 349, Laws of 2002 (E2SSB 6560), the State Lottery Commission is authorized to join the shared game multi-state lottery, "The Big Game." After transfers and reductions in existing lottery game revenue, participation in "The Big Game" is projected to increase net General Fund-State revenues by \$24 million in fiscal year 2003 and by \$63 million in the 2003-05 biennium.

While it had no direct revenue impact, Chapter 33, Laws of 2002 (SB 6819), revised Initiative 601 voting requirements through fiscal year 2003 to allow for a simple majority vote for general tax increases and transfers from the emergency reserve fund. This legislation was effective on March 13, 2002.

The application of the use tax was broadened by Chapter 367, Laws of 2002 (SB 6835), to include three areas involving out-of-state activities. For fiscal year 2003, General Fund-State revenues are increased by about \$27 million, and local revenues are increased by about \$8 million. For the 2003-05 biennium, General Fund-State revenues are increased by a projected \$58 million.

Investment Income Tax Deduction for Business & Occupation Tax

The only legislation with a permanent General Fund-State revenue decrease of over \$1 million for the 2001-03 biennium was Chapter 150, Laws of 2002 (HB 2641), responding to the Governor's task force on taxation of investment income for non-financial firms. The task force was convened to address the 2000 State Supreme Court decision in *Simpson Investment Company v. Department of Revenue*. This legislation decreases General Fund-State revenue by \$3.6 million in fiscal year 2003 and by about \$10.5 million in the 2003-05 biennium.

Estate Tax

The federal Economic Growth and Tax Relief Reconciliation Act (EGTRRA) of 2001 phases out the federal estate tax by 2010. Included in EGTRRA was a phase-out by 2005 of the credit for estate taxes imposed by states. Under current statutes, Washington estate tax "picks up" the credit as it existed on January 1, 2001. Although there were various proposals to conform or partially conform to EGTRRA, none were enacted during the 2002 session; so the state will collect 100 percent of the old credit.

Transportation

The 2002 session featured a number of transportation measures containing revenue provisions to raise money for local and statewide projects. Chapter 56, Laws of 2002, Partial Veto (E2SSB 6140), authorizes some local taxing authority and financing sources, subject to voter approval, for regional transportation investment districts limited to King, Pierce, and Snohomish Counties. Chapter 202, Laws of 2002 (ESHB 2969 – Referendum 51), raises revenue for statewide improvements, authorizes a gas tax increase, authorizes a sales tax increase on vehicles, and earmarks sales tax on highway construction for transportation projects. Referendum 51 requires approval of the statewide electorate in November 2002. (For more information, see the Transportation New Law Budget Section of this document.)

Other

No other legislation resulted in permanent revenue impacts of over \$1 million General Fund-State for the 2001-03 biennium. Two bills to assist local governments have General Fund-State impacts of over \$1 million in the 2003-05 biennium. Chapter 184, Laws of 2002 (SB 5082), amends the definition of rural county to include counties smaller than 225 square miles for the purposes of the 0.08 percent local sales tax for public facilities. Chapter 363 Laws of 2002, Partial Veto (3SSB 5514), extends the date by which construction of regional special events centers must commence in order to be eligible for the local sales tax. Both of these local sales taxes are credits against the state sales tax.

Two other non-transportation bills will result in significant increases in local and special purpose revenues. Chapter 294, Laws of 2002 (SHB 2060), changes fees for documents filed with county auditors and dedicates the revenue to low-income housing. Combined revenue increases for local governments and the Washington Housing Trust Fund exceed \$12 million for fiscal year 2003. Chapter 341, Laws of 2002 (HB 2595), increases taxes on wireless telephone service to allow enhanced 911 (E-911) services to accommodate wireless phone calls. For fiscal year 2003, the legislation raises revenue of \$3 million for statewide coordination and over \$3 million for county E-911.

2002 Revenue Legislation Changes

General Fund-State

(Dollars in Thousands)

Legislation			2001-03	2003-05
2SHB	1477	Emergency Communication Systems	0	0
2SHB	1531	Taxation of Lodging	-135	-245
SHB	2031	Pay Phone Service Taxation	0	0
SHB	2060	Low-Income Housing	0	0
2SHB	2338	Drug Offense Sentencing	0	-8,528
SHB	2357	Community Renewal	0	0
HB	2425	Community Economic Revitalization Board (CERB)	0	-100
SHB	2437	Economic Revitalization	0	0
SHB	2456	Linked Deposit Program	0	-236
SHB	2466	Multiple-Unit Dwellings	0	0
SHB	2495	Fire Districts	0	0
HB	2496	Fire Protection Districts/Property Tax	0	0
HB	2553	Cigarette Tax Contracts/Tribes	0	0
SHB	2592	Community Revitalization Financing	0	0
HB	2595	Wireless 911 Service	0	0
HB	2639	Internet Service Providers/Moratorium	0	0
HB	2641	Business and Occupation Tax (Investment Income)	-3,615	-10,473
HB	2732	Subsidized Health Care	0	0
HJR	4220	Fire Protection District Levies	0	0
SB	5082	Defining Rural Counties	-414	-1,070
3SSB	5514	Public Facility Districts	-725	-2,101
SB	5523	Leased Equipment/Tax Overpayment	0	0
2SSB	5965	Local Real Estate Excise Tax (REET)	0	0
ESSB	6060	Hazardous Substance Tax	0	0
SSB	6342	Sales and Use Tax Act	0	0
SB	6539	Telecommunications	0	0
SB	6591	Tobacco Products Tax *	0	0
SSB	6787	Organ Procurement Organizations	-34	-171
SB	6819	Expenditure Limits	0	0
SB	6835	Use Taxation	27,179	58,431
			22,256	35,507
Transportation Revenue Bills				
ESHB	2304	Transportation - Blue Ribbon Commission	-462	-924
ESHB	2969	Transportation - Improvement and Financing	0	0
ESSB	6008	Commute Trip Reduction	-1,500	750
SB	6036	Local Motor Vehicle Excise Tax	0	0
E2SSB	6140	Regional Transportation Investment Districts	0	0
ESSB	6464	City Transportation Authority	0	0
			-1,962	-174
New Lottery Game				
E2SSB	6560	Shared Game Lottery	24,400	63,446
Budget Driven Revenue				
		Department of Revenue	46,400	106,120
		License Fee for Nursing Homes (Transfer)	-3,367	-6,733
			43,033	99,387
Miscellaneous Revenue Changes			68	180
Total Revenue Changes			87,795	198,346

* The General Fund-State fiscal impact of SB 6591 is an increase of \$2.37 million for fiscal year 2003 and \$5.95 million for the 2003-05 biennium. As the impact does not result in an increase for balance sheet purposes, it is not included in the sum for this table. (The most current forecast already assumes these revenues.)

Revenue Legislation

The legislation listed below is intended to be a summary of bills passed during the 2002 session affecting state revenues or tax statutes, but may not cover all revenue-related bills. The legislation is listed in bill number order, although transportation-related legislation is grouped together at the end.

Allowing Counties to Impose Taxes for Emergency Communications Systems – No General Fund-State Revenue Impact

Chapter 176, Laws of 2002 (2SHB 1477), authorizes counties to impose an additional 0.1 percent sales and use tax for emergency communication systems and facilities, subject to voter approval. This legislation has no state revenue impact; local impact depends on the number of counties that enact the additional tax.

Modifying the Taxation of Lodging — \$135,000 General Fund-State Revenue Decrease

Chapter 178, Laws of 2002, Partial Veto (2SHB 1531), eliminates the requirement for continuous occupancy of a specific lodging unit by the same person in order to be exempt from the taxes on lodging. (The Governor vetoed a provision intended to allow a municipality located in more than one county to impose the local lodging tax in each county at the maximum rate; however, as written, the provision had no effect on current law.) This legislation decreases General Fund-State revenue by \$135,000 in the 2001-03 biennium and results in a small decrease in local revenues and receipts to the Convention Center Account.

Limiting the Taxation of Pay Phone Services—No General Fund-State Revenue Impact

Chapter 179, Laws of 2002 (SHB 2031), requires cities to tax pay phone services of independent pay phone operators at the 0.2 percent retailing rate rather than the 6.0 percent utility rate. This legislation has no state revenue impact and decreases local revenues by \$167,000 in fiscal year 2003.

Providing Funds for Housing Projects — No General Fund-State Revenue Impact

Chapter 294, Laws of 2002 (SHB 2060), imposes a \$10 surcharge on recordings of real property documents filed with county auditors. Proceeds are directed as follows: 5 percent may be retained by county auditors for administrative expenses, and, of the remainder, 40 percent is deposited into the state Housing Trust Account for low-income housing, and 60 percent may be used by the county and its cities pursuant to an inter-local agreement for specified purposes related to low-income housing programs. This legislation has no General Fund-State revenue impact. Local revenues are increased by \$7.6 million, and \$4.8 million is raised for the Washington Housing Trust Fund in the 2001-03 biennium.

Revising Sentences for Drug Offenses — No General Fund-State Revenue Impact

Chapter 290, Laws of 2002 (2SHB 2338), revises drug offender sentencing. Savings from these sentencing changes are used to fund drug treatment at the state and county level. This legislation requires a transfer of the calculated savings amount from the General Fund-State to the Criminal Justice Treatment Account, reducing revenues by an estimated \$8.5 million in the 2003-05 biennium. (This transfer is intended to be offset by savings in the operating budget as a result of the sentencing changes, but actual savings and calculated savings may differ.)

Addressing Community Renewal — No General Fund-State Revenue Impact

Chapter 218, Laws of 2002 (HB 2357), expands tax increment financing to allow increased local sales and use taxes derived from firms within a redevelopment area to be applied toward retirement of bonds that financed the project. Local improvement districts may be established within a community renewal area and imposition of special assessments on property within these districts is allowed. This legislation has no state revenue impact.

Funding the Community Economic Revitalization Board — No General Fund-State Revenue Impact

Chapter 242, Laws of 2002 (HB 2425), authorizes the Community Economic Revitalization Board (CERB) Account to retain 100 percent of its interest earnings on the repayment of principal and interest on its loans beginning July 1, 2004. Currently, these interest earnings are deposited into the general fund. The repayment of

loans made under the timber-dependent communities program and the rural natural resources impact area program are transferred from the Public Works Trust Fund into the CERB Account. The Board is required to provide at least 10 percent of all financial assistance in the form of grants. This legislation has no General Fund-State revenue impact during the 2001-03 biennium and a minimal impact thereafter.

Promoting Economic Revitalization — No General Fund-State Revenue Impact

Chapter 79, Laws of 2002 (HB 2437), allows a city or town with a population of over 100,000 to use the incremental increase in revenue of the basic and optional local sales and use taxes to finance community revitalization projects within a designated downtown or neighborhood commercial district. This legislation has no General Fund-State revenue impact.

Modifying Provisions Relating to the Linked Deposit Program — No General Fund-State Revenue Impact

Chapter 305, Laws of 2002 (SHB 2456), requires designated state agencies to develop analytical tools to measure the performance of the linked deposit program, and the Office of Minority and Women's Business Enterprises is added to the list of state agencies charged with monitoring the performance. The sunset provision on the program is extended from June 30, 2003, to June 30, 2008. This legislation has no state revenue impact during the 2001-03 biennium and a modest impact in fiscal year 2005 due to a reduction in interest earnings for the state general fund.

Revising the Multiple Unit Dwelling Property Tax Exemption — No General Fund-State Revenue Impact

Chapter 146, Laws of 2002 (SHB 2466), reduces the minimum city population cap from 50,000 to 30,000 for the multi-family housing property tax exemption program. The cost of the rehabilitation or construction is counted as new construction when calculating the maximum district property tax amount at the time the property is no longer exempt. It also allows cities to limit the tax exemption to individual dwelling units that meet the city guidelines for program participation, such as low-income housing status. This legislation is expected to have minimal state and local revenue impacts, although the program will create a tax shift beginning in calendar year 2004. These impacts assume that only Puyallup currently has plans to utilize the new legislation and that it will take a number of years for plans to reach fulfillment.

Updating Outdated Fire District Statutes to Increase Efficiency — No General Fund-State Revenue Impact

Chapter 84, Laws of 2002 (SHB 2495), expands the existing authority for a fire district to levy an additional property tax of \$0.50 per thousand dollars of assessed value if it has at least one full-time employee to districts that *contract* with at least one full-time employee. This legislation has no state revenue impact; local impacts depend on the number of districts that choose to take advantage of this provision.

Modifying Fire Protection District Property Tax Provisions — No General Fund-State Revenue Impact

Chapter 180, Laws of 2002 (HB 2496), allows multiple-year levies for fire districts by amending the current one-year fire protection district property tax levy to allow for a levy of up to four years for maintenance and operation support and up to six years for construction or remodeling purposes. The act only takes effect if the accompanying constitutional amendment, House Joint Resolution (HJR) 4220, is approved at the next general election. This legislation has no state or local revenue impact.

Increasing the Number of Eligible Tribes for Cigarette Tax Contracts — No General Fund-State Revenue Impact

Chapter 87, Laws of 2002 (HB 2553), authorizes the Governor to enter into cigarette tax contracts with the Snoqualmie and the Swinomish tribes, in addition to the 16 tribal entities allowed under Chapter 235, Laws of 2001. The contracts allow the tribes to levy tribal cigarette taxes equivalent to state and local cigarette and sales taxes, although purchases by tribal members may be exempted. This legislation has no direct revenue impact. Enactment of contracts in the future could result in a small increase in state and local revenue, as the incentive to purchase from tribal retailers is removed and some purchasers shift to more convenient, non-tribal retailers.

Modifying Community Revitalization Financing — No General Fund-State Revenue Impact

Chapter 12, Laws of 2002 (HB 2592), amends a 2001 statute regarding the use of tax increment financing for community revitalization projects. Fire protection districts must agree to participate in order for a local government

to proceed with community revitalization financing. Local governments are authorized to issue non-recourse revenue bonds to finance revenue-generating public improvements, or portions of public improvements, that are located within a tax increment area. The Community Revitalization Financing Program's expiration date of July 1, 2010, is eliminated. This legislation has no state revenue impact; local impact depends on the extent to which local governments use this provision.

Providing Funding for Wireless Enhanced 911 (E-911) Taxes — No General Fund-State Revenue Impact

Chapter 341, Laws of 2002 (HB 2595), increases the maximum county 911 tax of 25 cents on radio access (wireless) lines to 50 cents. A state E-911 tax of 20 cents is imposed on wireless lines. Revenues from the state tax can be used for implementation and operation of wireless E-911 statewide, including funding of counties and reimbursement of wireless carriers. This legislation has no General Fund-State revenue impact. Fiscal year 2003 revenues to the state E-911 Account are projected at \$2.8 million, and revenues for counties are projected at \$3.5 million, with growth in subsequent years.

Continuing a Moratorium that Prohibits a City or Town from Imposing a Specific Fee or Tax on an Internet Service Provider — No General Fund-State Revenue Impact

Chapter 181, Laws of 2002 (HB 2639), extends the prohibition on the imposition of new taxes or fees on Internet service providers from July 1, 2002, to July 1, 2004. This legislation has no impact on current state and local revenues.

Implementing the Recommendations of the Investment Income Tax Deduction Task Force for the Business and Occupation (B&O) Tax — \$3.6 Million General Fund-State Revenue Decrease

Chapter 150, Laws of 2002 (HB 2641), revises the B&O deduction for investment income. Amounts received from investments are deductible except for banking businesses, lending businesses, security businesses, loans or the extension of credit, revolving credit arrangements, installment sales, and the acceptance of payment over time for goods or services. Also deductible are amounts derived from interest on loans between a subsidiary entity and a parent entity or between subsidiaries of a common parent entity provided the total investment and loan income is less than 5 percent of the annual gross receipts of the business. This legislation decreases General Fund-State revenue by \$3.6 million in fiscal year 2003 and by \$10.5 million in the 2003-05 biennium.

Excluding Government Subsidized Social Welfare Compensation from Taxation — No General Fund-State Revenue Impact

Chapter 314, Laws of 2002 (HB 2732), restates 2001 enacted legislation that modified the B&O tax deduction to allow nonprofit and public hospitals to deduct amounts received from a governmental entity via managed care organizations. The Governor vetoed a provision in the 2001 legislation that waived tax liability for hospitals that had not paid their tax. HB 2732 waives tax liability since January 1, 1998, and provides refunds of taxes paid since January 1, 1998. This legislation has no General Fund-State revenue impact but results in a one-time reduction in revenue for the Health Services Account of \$7.8 million in fiscal year 2003.

Amending the Constitution to Expand the Number of Years Excess Levies by Fire Protection Districts Can Be Made — No General Fund-State Revenue Impact

HJR 4220 is the accompanying constitutional amendment to HB 2496 (see description above) and takes effect only if approved by the voters at the next general election.

Defining Rural Counties for Purposes of Sales and Use Tax for Public Facilities in Rural Counties — \$414,000 General Fund-State Revenue Decrease

Chapter 184, Laws of 2002 (SB 5082), amends the 0.08 percent local option sales tax that is credited against the state's sales tax for rural counties. Revenue from the local tax is used to finance public facilities such as bridges, roads, and sewer facilities. The definition of "rural county" is expanded to include counties that are smaller than 225 square miles. Island County is the only county that meets this requirement that is not already eligible. This legislation decreases General Fund-State revenue by \$414,000 for fiscal year 2003 and increases local government revenue by the equivalent amount.

Changing Provisions Relating to Public Facility Districts — \$725,000 General Fund-State Revenue Decrease

Chapter 363, Laws of 2002, Partial Veto (3SSB 5514), extends the date by which construction of regional centers must commence in order to be eligible for the local sales tax. Entities that form public facilities districts (PFDs) before July 31, 2002, and commence construction before January 1, 2004, are allowed to impose a 0.033 percent sales tax credited against the state tax. The existing municipal admissions tax is extended to events at public facilities operated by a PFD and requires that the receipts be dedicated to the facility or its programs. “Special events center” is defined, and a city is allowed to form a PFD with a county. (The Governor vetoed a provision in the bill that would have allowed PFDs a full refund of all sales taxes paid on the construction of regional centers after the center became operationally complete.) This legislation decreases General Fund-State revenue by \$725,000 in fiscal year 2003 and increases local government revenues by an equivalent amount.

Authorizing an Offset for Certain Overpayments of Tax Concerning Leased Equipment — No General Fund-State Revenue Impact

Chapter 57, Laws of 2002 (SB 5523), grants an exception to the four-year limitation of refunds regarding overpayments of sales tax on leased equipment. A taxpayer is allowed to credit the sales tax paid incorrectly on the original sale to offset the amount of sales taxes subsequently owed on the leased property. This legislation is expected to have negligible state or local revenue impact.

Authorizing Local Option Real Estate Excise Taxes for Affordable Housing Purposes — No General Fund-State Revenue Impact

Chapter 343, Laws of 2002 (2SSB 5965), authorizes an additional 0.5 percent real estate excise tax for counties for the development of affordable housing, subject to voter approval. Only a county that imposes the 1.0 percent tax for conservation areas at the maximum rate and imposes it by January 1, 2003, is eligible. (Currently only San Juan County meets this requirement.) This legislation has no state revenue impact; for 12 months of collections, the additional tax could yield over \$800,000 in San Juan County.

Updating References for the Purposes of the Hazardous Substance Tax — No General Fund-State Revenue Impact

Chapter 105, Laws of 2002 (ESSB 6060), updates references to federal acts defining hazardous substances for purposes of the state hazardous substance tax. Reference to taxable hazardous substances under the Federal Comprehensive Environmental Response, Compensation, and Liability Act are updated to reflect taxable substances as of March 1, 2002. Exempt are certain non-compound metals that are no longer included as a hazardous substance. Pesticides required to be registered under the Federal Insecticide, Fungicide, and Rodenticide Act are limited to those required to be registered as of August 3, 1996, the last date the act was amended. This legislation has no state revenue impact.

Adopting the Simplified Sales and Use Tax Administration Act — No General Fund-State Revenue Impact

Chapter 267, Laws of 2002 (SSB 6342), authorizes Washington to be a voting member in negotiating a multi-state Streamlined Sales and Use Tax Agreement. Requirements that must be met before Washington can join a multi-state agreement are specified. Any proposed changes to state law as the result of an agreement must be presented by the Department of Revenue to the Legislature. This legislation has no state revenue impact.

Implementing the Federal Mobile Telecommunications Sourcing Act — No General Fund-State Revenue Impact

Chapter 67, Laws of 2002 (SB 6539), sources state and local excise taxes on mobile telecommunications to the customer's primary place of use, in a manner consistent with federal law. A procedure is created for customer complaints about incorrect tax amounts on mobile telecommunications billings. This legislation has no state or local revenue impact.

Allowing the Lottery Commission to Participate in a Shared Game Lottery — \$24.4 Million General Fund-State Revenue Increase

Chapter 349, Laws of 2002 (E2SSB 6560), authorizes the Lottery Commission to enter into the shared game lottery known as “The Big Game.” Lottery revenues of \$102 million per year are guaranteed to the Student Achievement Account and Education Construction Account. This legislation is projected to increase General Fund-State revenue by \$24.4 million in fiscal year 2003 and by \$63.4 million in the 2003-05 biennium.

Changing the Taxation of Tobacco Products to Provide for the Taxation of Products Purchased for Resale from Persons Immune from State Tax — \$2.4 Million General Fund-State Revenue Impact

Chapter 325, Laws of 2002 (SB 6591), expands the definition of distributor to include persons who sell tobacco products (other than cigarettes) that have not yet been subjected to the tobacco tax. The definition of persons is amended to exclude federal entities and tribes. The effect of the changes is to prevent distributors from avoiding the tobacco products tax by purchasing from entities immune from tax (such as Indian tribal vendors). For fiscal year 2003, this legislation has a positive General Fund-State impact of about \$2.4 million, and a combined increase to other funds of about \$4 million. However, since these projected tax revenues are assumed in the February 2002 forecast, these revenues do not net to a positive increase for the balance sheet as of May 2002.

Exempting Organ Procurement Organizations from Taxation — \$34,200 General Fund-State Revenue Decrease

Chapter 113, Laws of 2002 (SSB 6787), exempts income of nonprofit organ procurement organizations from the B&O tax to the extent that it is exempt from federal income tax. The purchase or use of medical supplies, chemicals, or specialized materials for nonprofit organ procurement organizations is exempt from sales and use tax. The sales and use tax exemption does not apply to construction materials, office equipment, building equipment, administrative supplies, or vehicles. This legislation decreases General Fund-State revenue by \$34,200 in fiscal year 2003.

Making Temporary Amendments to the State's Expenditure Limitations to Address the Revenue Shortfall in the 2001-03 Biennium — No General Fund-State Revenue Impact

Chapter 33, Laws of 2002 (SB 6819), revises Initiative 601 voting requirements so that until June 30, 2003, a simple majority vote of both houses of the Legislature is sufficient to increase general state revenues or make transfers from the Emergency Reserve Fund. (The overall state expenditure limit is unchanged.) This legislation was effective on March 13, 2002, and has no direct state revenue impact.

Revising Use Tax Provisions — \$27.2 Million General Fund-State Revenue Increase

Chapter 367, Laws of 2002 (SB 6835), broadens the application of the state and local use tax to three areas involving out-of-state activities. For the purposes of calculating the use tax, delivery, shipping, freight, or like transportation charges are included in the value of an article. Use tax is imposed on advertising printed out of state for an in-state retailer and mailed directly by the printer to Washington residents primarily to promote the sale of goods or services. Use tax is imposed on out-of-state repair services performed on tangible personal property for a Washington consumer. For fiscal year 2003, this legislation increases General Fund-State revenue by \$27.2 million and local government revenue by \$7.9 million.

Transportation Revenue Bills

Adopting Certain Recommendations of the State Blue Ribbon Commission on Transportation — \$462,000 General Fund-State Revenue Decrease

Chapter 5, Laws of 2002 (ESHB 2304), fully dedicates fees paid by contractors to the Department of Labor and Industries for the prevailing wage program. This terminates the transfer of 30 percent of these revenues from the Public Works Administration Account to the state general fund and decreases General Fund-State revenue by \$462,000 in fiscal year 2003 and \$924,000 in the 2003-05 biennium.

Addressing Transportation Improvement and Financing — No General Fund-State Revenue Impact

Chapter 202, Laws of 2002 (ESHB 2969), is subject to referendum at the next general election (Referendum 51) and contains a number of provisions that would fund transportation improvements: (1) fuel taxes are increased by nine cents per gallon over two years; (2) gross weight fees on large vehicles are increased by 30 percent over two years; (3) sales taxes on new and used vehicles (other than farm vehicles and off-road/non-highway vehicles) are increased by 1 percent; (4) sales taxes on highway construction projects are transferred to transportation accounts beginning in fiscal year 2006; and (5) the amount of the fuel tax transferred to accounts benefiting off-road vehicles, snowmobiles, and boating is raised. If enacted, this legislation has no General Fund-State impact until the 2005-07 biennium when sales taxes on highway construction projects are transferred to transportation accounts; the decrease is projected at \$13 million. For fiscal year 2003, state Multimodal Transportation Account and other transportation account revenue increases are projected at \$119 million, rising to over \$795 million in the 2005-07 biennium.

Providing Commute Trip Reduction (CTR) Incentives — \$1.5 Million General Fund-State Revenue Decrease

Chapter 203, Laws of 2002 (ESSB 6008), reenacts the B&O and public utility tax credits that expired December 31, 2000, for employers providing financial incentives to employees for CTR. Tax credits and grants taken between January 1, 2003, and July 1, 2003, may not exceed a cap of \$2 million; caps in subsequent years increase. This legislation decreases General Fund-State revenue by \$1.5 million in fiscal year 2003; the decrease is a result of a lag in reimbursements from the Multimodal Transportation Account.

Repealing Local Motor Vehicle Taxes — No General Fund-State Revenue Impact

Chapter 6, Laws of 2002, Partial Veto (SB 6036), repeals the authority for a municipality to levy a motor vehicle excise tax of up to 0.725 percent of the value of the vehicle for mass transit purposes and repeals the authority for a municipal car rental tax at a rate of up to 1.944 percent. (Local motor vehicle excise taxes and car rental taxes for high capacity transit purposes levied by the Regional Transit Authority—Sound Transit—are not affected.) This legislation has no state revenue impact and no local impact as the taxes repealed have not been levied.

Authorizing Creation of Regional Transportation Investment Districts — No General Fund-State Revenue Impact

Chapter 56, Laws of 2002, Partial Veto (E2SSB 6140), provides for the creation of regional transportation investment districts (limited to King, Snohomish, and Pierce Counties). (The Governor vetoed a null and void clause that made this legislation contingent upon passage of Referendum 51.) Subject to local voter approval, the following revenues may be raised for the district: local sales and use taxes of up to 0.5 percent (except on motor vehicle sales); a local motor vehicle use tax of up to 0.5 percent (other than farm vehicles and off-road/non-highway vehicles); local vehicle license fees of up to \$100 per vehicle; local parking taxes; the remaining capacity of the local motor vehicle excise tax (MVET) of up to 0.3 percent; the remaining capacity of the sales and use tax on car rentals of 0.805 percent; the remaining capacity of the local excise tax on employers of up to \$2.00 per employee per month; and vehicle tolls on transportation facilities. The region is also authorized to submit a joint ballot proposition to the voters with Sound Transit to impose a 0.5 percent sales and use tax and the remaining capacity of Sound Transit's 0.5 percent MVET authority. Local revenue impacts will depend on the taxing options approved by voters.

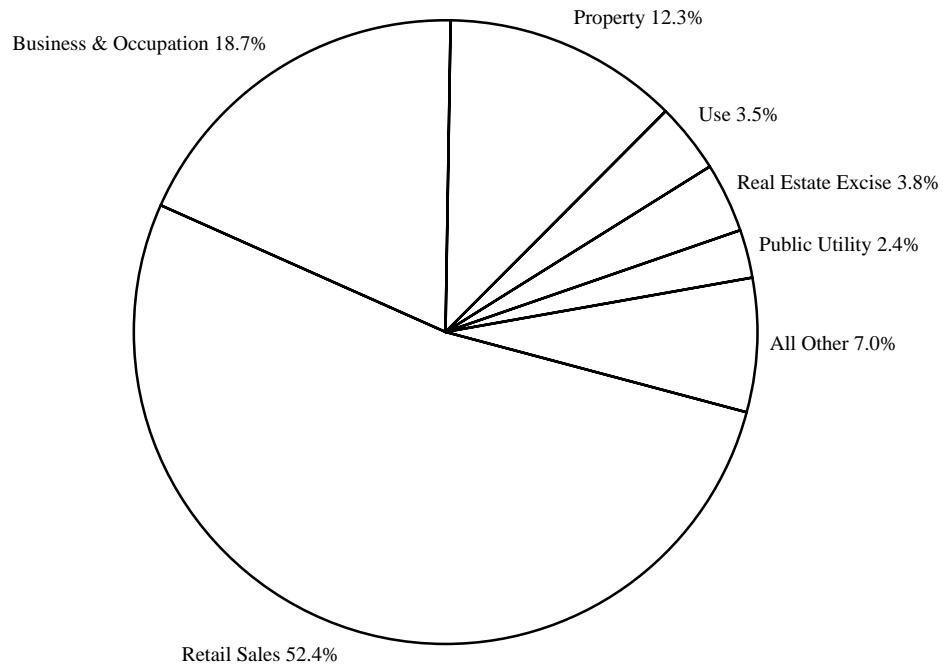
Authorizing the Creation of a City Transportation Authority — No General Fund-State Revenue Impact

Chapter 248, Laws of 2002, Partial Veto (ESSB 6464), authorizes a city with a population over 300,000 to create a city transportation authority by petition or ordinance. Local legislative authority and voter approval are required for any operating or financing plan. To pay for and to implement the plan, the city public transportation authority may levy a voter-approved property tax and issue revenue and general obligation bonds. Any number of the following taxes are also subject to voter approval: a motor vehicle excise tax not exceeding 2.5 percent; sales and use tax on retail car rentals not exceeding 1.944 percent, if the motor vehicle excise tax is implemented; a vehicle license tax not exceeding \$100 for each car within the city; and a regular property tax levy of \$1.50 or less per thousand dollars of property value, subject to the first round of pro-rationing. This legislation has no state revenue impact; local impact depends on which tax options are adopted.

Washington State Revenue Forecast - February 2002

2001-03 General Fund-State Revenues by Source

(Dollars in Millions)



Sources of Revenue	
Retail Sales	10,986.4
Business & Occupation	3,914.9
Property *	2,581.9
Use	727.8
Real Estate Excise	789.9
Public Utility	499.5
All Other	1,461.5
Total	20,961.9

* The state levy forecast reflects only the General Fund portion. The portion of the state levy that is transferred to the Student Achievement Account by Initiative 728 is excluded.

Note: Reflects the February 2002 Revenue Forecast (Cash Basis).